

Nigerian Gas Sector Watch Volume 1

KPMG in Nigeria

May 2020

This newsletter provides information on developments in the Nigerian Gas Sector during the first quarter of 2020.

1. Launch of Nigerian Gas Transportation Network Code

The Ministry of Petroleum Resources, through the Department of Petroleum Resources (DPR) recently launched the Nigerian Gas Transportation Network Code (NGTNC or “the Network Code”) aimed at opening access, and enhance availability and affordability of domestic gas for Nigerians. The Network Code, which became effective on 10 February 2020, is a set of rules and contractual framework established by the government to be observed by gas producers and transporters. Its provisions allow a six-month window for legacy agreements to migrate into the Network Code, while new and intending agreements are to align with the new Code.

The NGTNC is designed to govern the operations between the network operator(s) and users of the gas transportation system (including all existing and future gas pipelines) in Nigeria. It will serve as an important negotiation component for gas business and transactions in the Nigerian domestic gas market. Some key objectives of the Network Code are to:

- ensure fair and non-discriminatory access to the gas network;
- promote gas trading; and
- deepen domestic gas penetration in-country.

The launch of the NGTNC is in line with the Nigerian Gas Master Plan (NGMP), the National Domestic Gas Supply Pricing Regulation, 2008 and the National Gas Policy 2017, which stipulate that access to all midstream facilities will be on open access basis and a Network Code to manage access to the Gas network will be developed. The Network Code features several benefits to the Gas Sector including ensuring system security, reliability and safety, cost reflective tariffs, dispute resolution and other clear, unambiguous and comprehensive rules. The NGTNC, in its current form, also has in-built modification mechanisms. Hence, all stakeholders are assured of its periodic review to suit the dynamics of the Sector.

Players in the Nigerian Gas Sector are optimistic that the NGTNC will attract more investors to gas pipeline infrastructure and will provide a uniform platform in terms of guidelines for agreements between gas sellers, transporters and buyers, which will ensure transparency and eliminate existing bottlenecks. The Minister of State for Petroleum Resources (“the Minister”) has also stated that the Network Code would provide open and competitive access to gas transportation infrastructure and, ultimately, lead to the development of the Gas Sector, in line with government’s policy to reinforce and expand gas supply and stimulate demand through the National Gas Expansion Program.

Stakeholders in the Sector have applauded the launch of the NGTNC as it is a step closer to actualizing the potentials of the Nigerian Gas Sector. However, there are concerns that the Network Code alone cannot solve the country’s lingering gas policy problems, especially as Nigeria still lacks a comprehensive legal and fiscal regime for developing its natural gas. Some stakeholders are also of the opinion that gas should be recognized as a standalone product (divorced from crude oil), and that the terms “oil and gas” should be separated, to enable both sectors to operate and grow separately to achieve their potentials.

2. Update on the Nigeria Gas Flare Commercialization Program

During the first quarter of 2020, the DPR shortlisted two hundred (200) companies, from a pool of about 800 bidders, to bid for the development of forty-five (45) gas flare sites (out of 178 gas flare sites) across the country under the Nigeria Gas Flare Commercialization Program (NGFCP). The bidders were shortlisted based on their capacity, quality of service, track record and ability to deliver on set targets. The NGFCP, which was first launched in 2016, seeks to implement the policy objectives of the Federal Government of Nigeria (FGN) to eliminate gas flaring and, ultimately, create additional value from gas in Nigeria. The NGFCP also aims to tackle the existing environmental issues arising from constant gas flaring, especially in the Niger Delta.

Subsequent to the above, the DPR, in a bid to further activate the NGFCP, announced the minimum floor price (MFP) bid for the 45 flare sites, while the bid submission due date of the Request for Proposal (RFP) was extended till 10 April 2020. It is, however, not clear as at the time of this publication, how the lockdown in Lagos and Abuja, occasioned by the Coronavirus Disease (COVID-19) pandemic, will affect the due date of the RFPs.

The above is a welcome development, especially as stakeholders in the Sector have been expecting progress on the selection of Permit Holders since the NGFCP Regulation was passed in July 2018. Given that there is now some traction with the bidding process, it is imperative that the DPR expedites action on the next steps to enable the country to maximize the potentials inherent in the actualization of the NGFCP's objectives. Nonetheless, our views on the implementation of the NGFCP as stated in our newsletter on Flare Gas (Prevention of Waste and Pollution) Regulations 2018, remains valid. You can click [here](#) to access the newsletter.

3. DPR mulls gas alternatives for powering vehicles in 2020

In a bid to minimize the budgetary allocation voted for petroleum motor spirit (PMS) under-recovery ("fuel subsidy"), the DPR has rolled out awareness campaign on the usage of compressed natural gas (CNG) as an alternative to PMS in the country, particularly, for household users. It was also recently announced that the Nigerian National Petroleum Commission has secured a partnership with an indigenous downstream player for the conversion of PMS powered vehicles to gas-fired ones, and to build CNG retail outlets across the country. The aim is to substitute PMS powered engines with gas - a cleaner, cheaper and eco-friendlier alternative, while re-allocating the FGN's budgetary spend for other competing uses.

The initiative would witness the conversion of vehicles from PMS to gas-power, a process which was thought to be less complex. In addition, the conversion will be flexible, as converted vehicles can either run on petrol or CNG afterwards. Nonetheless, given the current challenges hindering the development of the Nigerian gas sector, stakeholders are skeptical about the viability of CNG as an alternative to PMS. Therefore, except the FGN resolves all the pending issues plaguing the development of the Nigerian Gas Sector speedily, the actualization of this initiative may be challenged.

4. Obiafu-Obrikom-Oben Pipeline – Proposed First Gas Flow in First Quarter 2021

Based on available information in the public domain, completion of the ongoing construction of Obiafu-Obrikom-Oben (OB3) gas pipeline, a 127-kilometer pipeline formerly scheduled for June 2020, has been further extended to the first quarter (Q1) of 2021 as a result of the COVID-19 pandemic. The OB3, a two billion standard cubic feet capacity gas project, is expected to connect and deliver gas from the eastern Niger Delta to the established markets in the western part of Nigeria. The completion of the OB3 will enable the first major outline of a national gas grid to come onstream.

The success of the OB3 will enhance the expansion of the domestic gas market in Nigeria as the pipeline is a critical component of the NGMP and its completion is a condition precedent for the final investment decision on some domestic gas projects. The project is also needed to actualize the reduction of the persistent gas flaring in the country, as it will provide alternative links to the Southwestern part of Nigeria, whenever the crucial Escravos Lagos pipeline system is challenged.

Thus, the completion of the OB3 would be an enabler for the Gas Sector's contribution to energy independence, industrial development, commerce, and environmental and social sustainability, as contemplated by the FGN. It is hoped that this project would be completed in Q1 2021 as rescheduled, to galvanize the much-needed investment in the Gas Sector value chain and restore investor confidence in the Sector.

5. FGN launches Gas Expansion Programme Committee

In January 2020, the Minister announced that the FGN has inaugurated the National Gas Expansion Programme Committee ("the Committee") to steer the Nigerian Gas Sector for optimal performance and better utilization of its abundant resources. The Committee is to serve as a catalyst for the development and utilization of available assets, and reform and implement a market infrastructure strategy to promote cost-effective distribution. The Committee is to engage State and non-State stakeholders on the gas policy.

For the Committee to make a difference in the Gas Sector, it must settle down to the task at hand and ensure that the various initiatives and policies of the government at making gas a valuable resource are achieved. Otherwise, it may become ineffectual and another needless administrative bottleneck in the achievement of the country's goals in the gas sector.



6. FGN secures finance for Ajaokuta-Kaduna-Kano (AKK) Gas Pipeline

The FGN is scheduled to close a \$2.5 billion financing agreement with Chinese lenders by the second quarter of 2020 to fund the development of the AKK gas pipeline. The funding represents the balance of 85% funding needed for the project, as approximately \$430 million had been initially secured through international owner financing by the NNPC.

The proposed AKK gas pipeline is a 614km-long natural gas pipeline that will form phase one of the Trans-Nigeria Gas Pipeline project (a portion of the Trans-Sahara Gas Pipeline System that will ultimately link Southern Nigeria with customers in Europe). The Infrastructure Concession Regulatory Commission announced in 2017 that \$2.8 billion had been approved for the AKK gas pipeline project, which will be implemented using a build and transfer public-private partnership model. The gas pipeline will feature a diameter of 40 inches with capacity to transport 3.5 billion metric standard cubic feet of dehydrated wet gas per day, from several gas gathering projects located in Southern Nigeria. The expectation is that the AKK pipeline will improve power generation capacity to over 10,000MW via gas to power projects.

The above is a welcome development especially as one of the focus of the AKK gas pipeline is the reduction of gas flaring which continues to create health hazards and contribute to global warming. Aside this, gas penetration to the North Central and North Western parts of the country will significantly reduce energy cost for industries operating in those regions, while generating massive employment opportunities during and post construction.

Conclusion

The development of the Nigerian Gas Sector will continue to play a critical role in fostering Nigeria's socio-economic growth. Hence, it is imperative for all stakeholders, especially the FGN, to ensure that proposed development activities are implemented timely in order to achieve this breakthrough.

The planned government policies are laudable and, if properly executed, will boost the confidence of current investors and attract additional investment opportunities that will lead to the desired growth and productivity of the Sector.

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